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HELP SHEETS AND LEAFLETS

Help Sheets and leaflets giving more detailed information about particular tax rules for share schemes are available from the Orderline. There is more information on Share Schemes on our website www.inlandrevenue.gov.uk/shareschemes

- *IR16: Share acquisition by directors and employees. Explanatory notes*
- *IR95: Approved profit sharing schemes. An outline for employees*
- *IR97: Approved Save As You Earn share option schemes. An outline for employees*
- *IR101: Approved Company Share Option Plans. An outline for employees*
- *IR2002: The All-employee share ownership plan. A guide for employees*
- *IR216: Shares as benefits*
- *IR217: Shares acquired: post-acquisition charges*
- *IR218: Employee shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)*
- *IR219: Shares acquired from your employment*
- *IR287: Employee share schemes and Capital Gains Tax*

Filling in the Share Schemes Pages

These Notes will tell you in what circumstances you have to pay tax on share options or shares you get free or cheaply by reason of your employment. Each taxable occasion is a 'taxable event'. You only need to fill in one copy of Page S1 of the Share Schemes Pages - it is a summary of all your taxable events for the year. **You must complete a separate copy of Pages S2 or S3 of the Share Schemes Pages for each taxable event.** Ask the Orderline for further copies, or you can use photocopies. (If you use a photocopy, please put your name and tax reference at the top.)

For example, you may exercise options in an approved savings related scheme twice in one year, over shares in two different companies. In this case:

- fill in a copy of **Pages S2 or S3** for each event
- enter one company and share scheme name in box 2.1 on Page S1 and the other in the 'Additional information' box, box 2.77
- tick box 2.2 if the shares in either company are unlisted
- add up the taxable amounts and put the total figure in box 2.3.

Gather together the material you will need such as:

- copies of share option certificates
- details of the amount (if any) you paid to buy the option
- copies of exercise notices
- details of the amount you paid to buy the shares (exercise price or option price)
- copies of EMI share option agreements and unique option references
- any correspondence or other explanatory information received from your employer about the share transaction
- information on the market value of the shares at the relevant dates
- records of the amount of Income Tax paid or tax accounted for under PAYE on any taxable event
- records of the amount of any employer's (secondary) NIC paid by you on any taxable amount.

If you do not have this information, the company whose shares are involved or your employer may be able to help.

The amount of information you need to give on the Share Schemes Pages depends on the type of employee share scheme you benefit from, or the circumstances in which you receive shares or benefits relating to them. The notes below give details about tax rules and tell you which boxes you should complete.

If you have only exercised an option under an approved savings-related scheme, see page SN2 of these Notes.

The following pages enable you to work out the taxable amount of benefits under your employee share or share option scheme.

Tick the relevant boxes on Page S1 of the Share Schemes Pages if any shares are 'unlisted'. 'Unlisted' shares means all shares not listed on a recognised Stock Exchange.

The Share Schemes Pages do not cover the Capital Gains Tax which might be due when you sell shares (you should ask the Orderline for the Capital Gains Pages, if you disposed of assets during the year (including shares) worth more than £14,400 in total or your chargeable gains (including gains from shares) were more than £7,200). For further information, ask the Orderline for *Help Sheet IR287: Employee share schemes and Capital Gains Tax.*

Do not include dividends from shares received through employee share schemes. These should be included in Question 10 on page 3 of your Tax Return.

Where tax has been paid to the Inland Revenue under the PAYE system on a taxable event included in these Pages, ask the Orderline for *Help Sheet IR218: Employee shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)*.

Employee share schemes

Some employee share schemes are approved by the Inland Revenue, others are not. The tax rules differ according to whether or not the scheme is approved.

Approved share schemes

There are four types of approved share schemes, and the Enterprise Management Incentive. If certain conditions are met, you will not be taxable on:

- the purchase of shares
- the receipt of free shares
- the grant of an option to buy shares
- the exercise of an option to buy shares
- shares ceasing to be subject to an all-employee share ownership plan.

(You may still be taxable on any dividends and you may have to pay Capital Gains Tax when you sell your shares.)

The notes below tell you when you will be taxable.

Approved profit sharing schemes

Shares given to you under an approved profit-sharing scheme will be taxed **only** if they are not kept in the Scheme Trust for three years. In this case, tax will normally be deducted under PAYE. The trustees of the profit-sharing scheme, or your employer, will let you have details of the amount on which tax has been charged and how much tax has been deducted. **These amounts should not be included in the Share Schemes Pages.** Instead, include them in boxes 1.8 and 1.11 in the Employment Pages when you complete them.

Approved all-employee share ownership plans

Include information about shares you bought, or were awarded to you under one of these plans **only** if the shares cease to be subject to the plan:

- within five years of you buying or being awarded them, **and**
- for a reason that does **not** fall within one of the exemptions below.

The exemptions include shares ceasing to be subject to the plan when the employment, by reason of which you were eligible to take part in the plan, ceases:

- because of injury or disability
- on redundancy
- by reason of a transfer to which the Transfer of Undertakings (Protection of Employment) Regulations 1981 apply
- by reason of a change of control or sale of the company out of the group
- by reason of retirement on or after reaching the retirement age specified in the plan
- on death.

Do not include dividend shares (shares, bought with dividends arising on other plan shares, which are reinvested in the approved plan). If dividend shares cease to be subject to the plan

- **within three years of their acquisition, and**
- **for a reason that does not fall within one of the exemptions above**

the amount of the dividend used to buy the shares should be included in Question 10 on page 3 of your Tax Return for the year they cease to be subject to the plan.

If the shares are subject to forfeiture, there is no charge to Income Tax when they become forfeit.

Example 1a
2 October 2000: you are awarded 400 shares in your company at a time when the market value is £5 per share. These shares are not subject to forfeiture.

2 April 2001: you leave the company (not for one of the reasons that falls within one of the exemptions aside) and the 400 shares cease to be subject to the plan. The market value of the shares is £6 per share.

The taxable amount is:
Market value of shares when they cease to be subject to the plan (400 x £6) = £2,400.

Example 1b
1 October 2000: you agree to buy shares each month with £100 from your gross pay. The market value is £5 per share and increases to £6 per share at 2 April 2001.

Over the period from 1 October 2000 to 31 March 2001 your contributions bought 110 shares

2 April 2001: you leave the company (not for one of the reasons that falls within one of the exemptions aside) and the shares cease to be subject to the plan. The market value of the shares is £6 per share.

The taxable amount is:
Market value of shares when they cease to be subject to the plan (110 x £6) = £660

If your shares cease to be subject to the plan in the circumstances set out in Examples 1a or 1b, complete:

- **boxes 2.28 to 2.30** on Page S1
- **boxes 2.64 to 2.68** on Page S3.

Then use Working Sheet 1 to calculate the taxable amount.

Working Sheet 1

Market value per share (box 2.67)	**A**	£
Number of shares ceasing to be subject to the plan (box 2.68)	**B**	
Taxable amount (copy to box 2.30)	**C** box A x box B	£

If PAYE has been operated on any amount entered in box C above, you will also need to enter the amount on which PAYE has been operated in box 2.41.

Share options

Approved savings-related share option schemes

Include information about an option under one of these (Save As You Earn) schemes in the Share Schemes Pages **only** if you have exercised the option:

- within three years of receiving it, **and**
- because the company you work for was sold or taken over.

In this case you will be taxable on the difference between the market value of the shares at the time the option is exercised and the amount paid for the shares.

Example 2
1 January 1999: you agree to save £100 per month for five years and you are granted an option over 3,000 shares in the parent company. The option price is £2 per share.

1 January 2001: the parent company sells the company you work for to another group. You are able to exercise the option up to the amount you have saved so far, through the savings scheme.

1 March 2001: you exercise the option using the £2,600 (26 months at £100) saved so far and buy 1,300 shares at £2 per share. The market value of the shares is £3 per share.

The taxable amount is:

• market value of shares bought	£3 x 1,300	=	£3,900
• *minus* price paid for shares	£2 x 1,300	=	£2,600
Taxable amount			**£1,300**

If you exercised an option in these circumstances, complete:

- **boxes 2.1 and 2.2** on Page S1
- **boxes 2.43 and 2.44** on Page S2, and
- **boxes 2.45, 2.46, 2.47, 2.48 and 2.51** (in the 'Options exercised' column).

Then use Working Sheet 2 to calculate the taxable amount.

Working Sheet 2

Market value per share (box 2.51)	**A**	£
Number of shares bought on exercise (box 2.47)	**B**	
Total market value of shares bought	**C** box A x box B	£
Option price per share (box 2.48)	**D**	£
Total price paid for shares	**E** box D x box B	£
Taxable amount (copy to box 2.3)	**F** box C *minus* box E	£

If you have **not exercised** your approved scheme option but have received something for giving up the option or for not exercising the option, do not fill in the boxes set out above. Instead refer to the section '**Cancellation or release of options**' on page SN6.

■ *Approved discretionary share option schemes*

Approved discretionary share option schemes include:

- approved executive share option schemes, **and**
- approved company share option plans.

You need to include information about an option under one of these schemes in the Share Schemes Pages **only** if you have exercised the option, **and**:

- when you exercised the option the scheme was no longer approved, **or**
- when you exercised it, it was less than three years, or more than 10 years, after the date it was granted to you, **or**
- you exercised it less than three years after the date on which you exercised an option under any approved discretionary share option scheme for which Income Tax relief was given.

In this case you will be taxable on the difference between the market value of the shares at the time you exercised the option and the amount paid for the shares.

Example 3
1 January 1996: you are granted an option over shares in the company you work for.

1 January 1998: you are granted a second option over 2,000 shares in the company. The option price is £3 per share.

1 March 1999: you exercise the first option.

1 March 2001: you exercise the second option and buy 2,000 shares at £3 per share. The market value of the shares is £5 per share. The exercise of the first option gets relief from Income Tax. The exercise of the second option does not get tax relief because it is within three years of the exercise of the first option, and so it needs to be included in the Share Schemes Pages.

The taxable amount is:

• market value of shares bought	£5 x 2,000	=	£10,000
• *minus* price paid for shares	£3 x 2,000	=	£6,000
Taxable amount			**£4,000**

If the exercise of an option under this scheme is taxable, complete:

- **boxes 2.7 and 2.8** on Page S1
- **boxes 2.43, 2.44** on Page S2, **and**
- **boxes 2.45, 2.46, 2.47, 2.48, 2.49 and 2.51** (in the 'Options exercised' column).

Then use Working Sheet 3 to calculate the taxable amount.

Working Sheet 3

Market value per share (box 2.51)	**A**	£
Number of shares bought on exercise (box 2.47)	**B**	
Total market value of shares bought	**C** box A x box B	£
Option price per share (box 2.48)	**D**	£
Total price paid for shares	**E** box D x box B	£
Amount, if any, paid for grant of option (box 2.49)	**F**	£
Taxable amount (copy to box 2.9)	**G** box C *minus* box E *minus* box F	£

If you have **not exercised** your approved scheme option but have received something for giving up the option, or for not exercising the option, do not fill in the boxes set out above. Instead, refer to the section '**Cancellation or release of options**' on page SN6.

■ *Enterprise Management Incentive (EMI) options*

Include information about an option under the Enterprise Management Incentive provisions in the Share Scheme Pages **only if there is a tax charge on exercise.** There may be a tax charge on exercise in the following circumstances:

- if the price you paid for a share under the option was less than the market value of a share on the date the option was granted,
- if a disqualifying event occurred more than 40 days before the day you exercised the option.

The examples and working sheets that follow explain how to complete your Tax Return if either or both of these situations apply.

The disqualifying events are:

1. the company whose shares are the subject of the option becoming a 51% subsidiary of another company, or otherwise coming under the control of another company or other person connected with the company unless you are granted a qualifying replacement option within six months of this event
2. the company ceasing to meet the trading activities requirement
3. you ceasing to be an employee of the company or a qualifying subsidiary, or ceasing to be required to spend 25 hours a week or at least 75% of your working time, or no longer spending 25 hours a week or 75% of your working time in such employment
4. the terms of the option being varied causing the market value of the shares subject to the option to be increased or the requirements of Schedule 14 Finance Act 2000 not to be met
5. the share capital of the company being varied without prior Inland Revenue approval
6. the conversion of the shares into a different class of shares not in accordance with paragraph 50 of Schedule 14
7. the grant of an option under an Inland Revenue approved discretionary share option scheme resulting in your holding Enterprise Management Incentive (EMI) options and discretionary share option scheme options over shares with a market value (as determined at the date of grant of each option) in excess of £100,000
8. the company or if it is the parent company of a group, any group company, where the company was a qualifying company only because of preparing to carry on a qualifying trade, ceasing such preparations or failing to commence carrying on the qualifying trade within two years of the date the option was granted.

Example 4: Exercise of discounted option

1 September 2000: you are granted an EMI option over 20,000 shares with a price of 50p. per share in the company you work for. The market value of a share at this date was £1. You did not pay anything for the grant of this option.

5 November 2000: you exercise the option buying 20,000 shares. You pay £1,220 secondary NICs. You will be taxed on this option exercise because the price paid for a share is less than the market value of a share at the date the option was granted.

The taxable amount is:

Market value of shares bought at date of grant 20,000 x £1	=	£20,000
minus price you paid for the shares 20,000 x 50p.	=	£10,000
		£10,000
minus secondary NICs paid at time of exercise		£1,220
Taxable amount		**£8,780**

If you have exercised an EMI option which was granted at a discount complete:

- **boxes 2.13 and 2.14** on Page S1
- **boxes 2.53 and 2.54** on Page S2, and
- **boxes 2.55, 2.57 to 2.60 and 2.62** in the 'Options exercised' column.

Then use Working Sheet 4 to calculate the taxable amount.

Working Sheet 4: Exercise of discounted option

Market value per share at date the option was granted (box 2.60)	A	£
Number of shares bought by exercise of option (box 2.57)	B	
Total market value, at date of grant, of shares bought	C (box A x box B)	£
Market value per share at date option was exercised (box 2.62)	D	£
Total market value, at date of exercise of shares bought	E (box B x box D)	£
Exercise price: option price per share (box 2.58)	F	£
Total price paid for shares	G (box B x box F)	£
Amount paid, if any, for grant of option (box 2.59)	H	£
Profit by reference to market value at date of grant (if no profit enter '0')	I (box C *minus* box G)	£
Overall profit by reference to market value at date of exercise (if no profit enter '0')	J (box E *minus* box G *minus* box H)	£
Lesser of box I and box J	K	£
Employer's secondary NICs, if any, paid by you on exercise of option	L	£
Taxable amount (copy to box 2.15)	M (box K *minus* box L)	£

If PAYE has been operated on any of the amount entered in box M above, you will also need to enter the amount on which PAYE has been operated in box 2.41.

Example 5: Exercise of option after a disqualifying event

1 September 2000: you are granted an EMI option over 50,000 shares at a price of £1 per share. The market value of the share is £1.

1 February 2001: a disqualifying event occurs and at this time the market value of a share is £2.

31 March 2001: you exercise the option and buy 50,000 shares. The market value of a share is £3. You pay secondary NICs of £6,100.

The taxable amount is:

Market value of shares when bought 50,000 x £3	=	£150,000
minus market value of shares on disqualifying event 50,000 x £2	=	£100,000
		£50,000
minus secondary NICs paid at time of exercise		£6,100
Taxable amount		**£43,900**

If you have exercised an EMI option more than 40 days after a disqualifying event and the shares have risen in value after the disqualifying event, complete:

- **boxes 2.13 and 2.14** on Page S1
- **boxes 2.53 and 2.54** on Page S2
- **boxes 2.55 to 2.57, 2.59, 2.61 and 2.62** on Page S2 (in the 'Options exercised' column).

Then use Working Sheet 5 to calculate the taxable amount.

If the shares you acquired under the option have not increased in value since the disqualifying event, there will be no tax to pay on exercise - you do not need to complete this working sheet. If the option was granted at a discount there may be tax to pay - use Working Sheet 4.

Working Sheet 5: Exercise of option after a disqualifying event

Market value per share at date of exercise (box 2.62)	A	£
Number of shares bought by exercise of option (box 2.57)	B	
Total market value, at date of exercise, of shares bought	C	box A x box B £
Market value per share at date of disqualifying event (box 2.61)	D	£
Total market value of shares at time of disqualifying event	E	box B x box D £
Increase in value of shares between disqualifying event and exercise (if no increase in value, enter '0')	F	box C *minus* box E £
Exercise price: option price per share (box 2.58)	G	£
Total price paid for shares	H	box B x box G £
Amount paid, if any, for grant of option (box 2.59)	I	£
Overall profit by reference to market value at date of exercise (if no profit, enter '0')	J	box C *minus* box H *minus* box I £
Lesser of box F and box J	K	£
Employer's secondary NICs, if any, paid by you on exercise of option	L	£
Taxable amount (copy to box 2.15)	M	box K *minus* box L £

If PAYE has been operated on any part of the amount entered in box M then you will need to enter the amount on which PAYE has been operated in box 2.41.

Example 6: Exercise of a discounted option after a disqualifying event

10 August 2000: you are granted an EMI option over 50,000 shares with a price of £1 per share. The market value of a share is £2.

1 February 2001: a disqualifying event occurs. The market value of a share is £3.

1 April 2001: you exercise the option and buy 50,000 shares when the market value of a share is £5. You pay secondary NICs of £18,300

The taxable amounts are:

(A)	market value of shares at date of grant 50,000 x £2	=	£100,000
	minus price paid for the shares 50,000 x £1	=	£50,000
			£50,000
	minus secondary NICs paid at time of exercise		£6,100
	taxable amount		**£43,900**
(B)	market value of shares when bought on exercise 50,000 x £5	=	£250,000
	minus market value of shares on disqualifying event 50,000 x £3	=	£150,000
			£100,000
	minus secondary NICs paid at time of exercise		£12,200
	Taxable amount		**£ 87,800**
Total taxable amount £43,900 + £ 87,800		=	**£131,700**

If you have exercised an EMI option (which was granted at a discount to market value at the date of grant) more than 40 days after a disqualifying event has taken place, complete:

- **boxes 2.13 and 2.14** on Page S1
- **boxes 2.53 and 2.54** on Page S2
- **boxes 2.55 to 2.62** (in the 'Options exercised' column) on Page S2.

Then complete boxes A - J of Working Sheet 4 and boxes A - I of Working Sheet 5, and use Working Sheet 6 to calculate the taxable amount when

- the price paid for the shares is less than their market value at the date the option was granted, **and**
- a disqualifying event occured more than 40 days before the option was exercised.

Working Sheet 6: Exercise of a discounted option after a disqualifying event

Profit by reference to market value at date of grant (box I in Working Sheet 4)	A	£
Increase in value of shares between disqualifying event and exercise (box F in Working Sheet 5)	B	£
Box A + box B	C	£
Overall profit by reference to market value at date of exercise (box J in Working Sheet 4)	D	£
Lesser of boxes C and D	E	£
Total secondary NICs paid, if any, on exercise of option	F	£
Taxable amount (copy to box 2.15)	G	box E *minus* box F £

If PAYE has been operated on any part of the amounts entered in box G of Working Sheet 6, you will also need to enter the total of these amounts on which PAYE has been operated in box 2.41.

If you have **not exercised** your EMI option but have received something for giving up the option, or for not exercising the option, do not fill in the boxes set out above. Instead refer to '**Cancellation or release of options**' below.

All share options

Cancellation or release of options

If you receive something in return for:

- transferring your option, **or**
- cancelling your option, **or**
- releasing your option, **or**
- otherwise not exercising your option,

you will have to pay Income Tax on the cash or value you receive. Leaflet *IR16: Share acquisitions by directors and employees*, available from the Orderline, gives more details.

You will be taxable on what you receive, whether or not the option was granted under an approved scheme.

Example 7
1 October 1999: you are granted an option over 1,000 shares in the company you work for. You pay £1 for the option.

1 February 2001: you receive £2,500 in return for the option being cancelled. You pay £304.87 secondary NICs.

The taxable amount is:

• amount received for release of option	=	£2,500
• *minus* amount paid for option	=	£1
		£2,499
• *minus* secondary NICs paid at time of cancellation or release of option	=	£305
Taxable amount		£2,194

If you have received something in return for transferring, cancelling or releasing your option, or otherwise not exercising your option, complete:

- **boxes 2.4 and 2.5** (approved savings-related share options), **or**
  boxes 2.10 and 2.11 (approved discretionary share options), **or**
  boxes 2.16 and 2.17 (EMI options), **or**
  boxes 2.25 and 2.26 (unapproved share options)
- **boxes 2.43 and 2.44** (approved savings-related and discretionary share options and unapproved share options) **or**
  boxes 2.53 and 2.54 (EMI options)
- **boxes 2.45, 2.49 and 2.52** in the 'Options cancelled/released' column (approved savings-related and discretionary share options and unapproved share options), **or**
  boxes 2.55, 2.59 and 2.63 in the 'Options cancelled/released' column (EMI options).

Then use Working Sheet 7 to calculate the taxable amount.

Working Sheet 7

Amount received (box 2.52 (**or** box 2.63 EMI))	**A**	£
Amount, if any, paid for grant of option (box 2.49 (**or** box 2.59 EMI))	**B**	£
Profit on cancellation or release of option	**C** box A *minus* box B	£
Secondary NICs paid on cancellation or release of option	**D**	£
Taxable amount	**E** box C *minus* box D	£

Then copy the taxable amount from E to:

- **box 2.6** (approved savings-related share options), **or**
- **box 2.12** (approved discretionary share options), **or**
- **box 2.18** (Enterprise Management Incentive options), **or**
- **box 2.27** (unapproved share options).

If PAYE has been operated on any of the amount received above, you will also need to enter the amount on which PAYE has been operated in box 2.41.

Income Tax paid on the grant of your option

If you paid Income Tax on the grant of your option, the amount paid can reduce the amount of Income Tax to pay (if any) on the taxable amount E in Working Sheet 7 above. The tax credit relief cannot exceed the tax to pay on the taxable amount E.

Enter the amount of Income Tax paid on the **grant** of your option in box 2.76 on Page S3.

Unapproved share option schemes

If the scheme under which it was granted was not approved and it was not a qualifying EMI option you may be taxable on both:

- the grant of a share option, **and**
- the exercise of a share option.

Grant of a share option

You need to include the grant of a share option on Page S1 of the Share Schemes Pages **only if:**

- you can exercise the option to buy shares more than ten years after the date it was granted to you, **and**
- the option price (at which you can buy the shares) is less than the market value of the shares at the date the option was granted to you.

In this case you will be taxable on the value of the option *minus* the price, if any, that you paid for it. The minimum value placed on the option by the special tax rules is the difference between the option price and the market value of the shares. You should use this figure unless you think the option had a higher value.

The amount of tax you pay on the grant of your option can be deducted from the tax you have to pay (if any) when your option is exercised, or when you receive something in return for:

- transferring your option, **or**
- cancelling your option, **or**
- releasing your option, **or**
- otherwise not exercising your option.

You will need to keep a record of the amount of tax paid on the grant of your option to complete the Share Scheme Pages of the Tax Return for the year in which you exercise your option, or receive something in return for transferring, cancelling, releasing or otherwise not exercising your option. Leaflet *IR16: Share acquisitions by directors and employees*, available from the Orderline, gives more details.

Example 8

1 October 2000: you are granted an option over 1,000 shares in the company you work for. The option entitles you to buy the shares between 1 October 2003 and 30 September 2012 (three to twelve years later). The market value of the shares is £3 each. The option price is £2 per share. You pay £1 for the option.

The taxable amount is:

• value of option 1,000 x £1 (£3 less £2)	=	£1,000*
• *minus* paid for option	=	£1
Taxable amount		**£ 999**

* this is the minimum value placed on the option at 1 October 2000.

If this applies to you complete:

- **boxes 2.19 and 2.20** on Page S1,
- **boxes 2.43 and 2.44** on Page S2, **and**
- **boxes 2.45, 2.47, 2.48, 2.49** and **2.50** (in the 'Options granted' column).

Then use Working Sheet 8 to calculate the taxable amount.

Working Sheet 8

Market value per share (box 2.50)	A	£
Option price per share (box 2.48)	B	£
Discount per share	C	box A *minus* box B £
Number of shares (box 2.47)	D	
Value of option*	E	box C x box D £
Amount, if any, paid for grant of option (box 2.49)	F	£
Taxable amount (copy to box 2.21)	G	box E *minus* box F £

* This is the minimum value placed on the option. If you think the value of the option was higher enter your valuation in box E.

If PAYE has been operated on any of the amount in box G, you will also need to enter the amount on which PAYE has been operated in box 2.41.

• Exercise of a share option

You need to include the exercise of any option from unapproved schemes on Page S1 of the Share Schemes Pages.

In this case you will be taxed on the difference between the market value of the shares at the time you exercised the option and the amount you paid for the shares (including the cost, if any, of the option).

Example 9

1 October 1999: you are granted an option over 1,000 shares in the company you work for. The option price is £2 per share. You pay £1 for the option.

1 February 2001: you exercise the option and buy 1,000 shares at £2 per share. The market value of the shares is £5 per share. You pay £365.87 secondary NICs.

The taxable amount is:

• market value of shares bought	£5 x 1000	=	£5,000
• *minus* price paid for shares	£2 x 1000	=	£2,000
			£3,000
• *minus* amount paid for option			£1
• profit on share option exercise			£2,999
• *minus* secondary NICs paid at the time of exercise			£366
Taxable amount			**£2,633**

If you have exercised an option under an unapproved scheme complete:

- **boxes 2.22 and 2.23** on Page S1,
- **boxes 2.43 and 2.44** on Page S2, **and**
- **boxes 2.45, 2.46, 2.47, 2.48, 2.49** and **2.51** (in the 'Options exercised' column).

Then use Working Sheet 9 to calculate the taxable amount.

Working Sheet 9

Market value per share (box 2.51)	A	£
Number of shares (box 2.47)	B	
Total market value of shares bought	C	box A x box B £
Exercise price: option price per share (box 2.48)	D	£
Total price paid for shares	E	box B x box D £
Amount, if any, paid for grant of option (box 2.49)	F	£
Profit on option exercise	G	box C *minus* box E *minus* box F £
Secondary NICs paid at the time of exercise	H	£
Taxable amount (copy to box 2.24)	I	box G *minus* box H £

If PAYE has been operated on any of the amount entered in box I, you will also need to enter the amount on which PAYE has been operated in box 2.41.

• Income Tax paid on the grant of your option

If you paid Income Tax on the grant of your option, the amount paid can reduce the amount of Income Tax to pay (if any) on the taxable amount I. The tax credit relief cannot exceed the tax to pay on the taxable amount I.

Enter the amount of Income Tax paid on the **grant** of your option in box 2.76 on Page S3.

If you have not exercised your option, but have received something for giving up the option or for not exercising the option, do not fill in the boxes set out above. Instead refer to the section '**Cancellation or release of options**' on page SN6.

Share options – residence issues

If you have been granted or exercised an option, there are some occasions when the general rules do not apply.

If you are not taxed in the UK on all the income from your employment because of

- your residence status, **and**
- the place you performed the duties of your employment,

any options granted to you by reason of that employment may be subject to special rules. For options granted to you in such circumstances, you still need to complete Working Sheet 9. For options exercised by you in such circumstances, follow the guidance in *Help Sheet IR216: Shares as benefits*. Further details are also in *Help Sheet IR211: Employment - residence and domicile issues*, and leaflet *IR16: Share acquisitions by directors and employees*. *Help Sheets IR216* and *IR211* and leaflet *IR16* are available from the Orderline.

Shares acquired

You will be taxed on shares (or interests in shares) you get free or cheaply by reason of your employment.

- Shares acquired from your employment

boxes 2.31 to 2.33 Shares can be acquired from your employment in a variety of circumstances. If you have received shares, or interests in shares, free or cheaply from your employment, ask the Orderline for *Help Sheet IR219: Shares acquired from your employment* to help you to complete Pages S1 and S2 of the Share Schemes Pages. If PAYE has been operated you may also need *Help Sheet IR218: Employee shares: Operation of Pay As You Earn (PAYE) and National Insurance contributions (NICs)*, from the Orderline.

- Shares subject to risk of forfeiture

boxes 2.31 to 2.39 If you receive shares from your office or employment which can become forfeit if certain conditions are not met (this does not include shares received from an approved all-employee share ownership plan which are subject to forfeiture), you may be taxed when:

- you receive the shares, if the risk of forfeiture can continue more than five years after the date of receipt, **or**
- the shares are disposed of before the risk of forfeiture is lifted, **or**
- the conditions are met and the risk of forfeiture is lifted.

If this applies to you, ask the Orderline for *Help Sheet IR219: Shares acquired from your employment* to help you to complete the Share Schemes Pages. If PAYE has been operated you may also need *Help Sheet IR218: Shares acquired: Operation of Pay As You Earn (PAYE)*, from the Orderline.

- Shares as benefits

boxes 2.34 to 2.36 If you acquire shares for less than their market value, and the benefit from doing so is not otherwise chargeable to Income Tax, the amount of the undervalue is treated as a loan. If you acquire 'partly paid' shares you are treated as if you had received an interest-free loan equal to the difference between the market value of fully paid shares and the sum actually paid. If this applies to you, ask the Orderline for *Help Sheet IR216: Shares as benefits.*

If your employer has enabled you to sell shares for more than their market value, the benefit to you will be included on your P11D or other information supplied by your employer. You should have entered the figure in box 1.22 of your Employment Pages.

- Post-acquisition charges

boxes 2.37 to 2.39 If you acquire shares, or an interest in shares, by reason of your employment you may be taxed later when:

- rights or restrictions attached to any shares are altered, **or**
- shares in certain subsidiary companies are kept for seven years, or if sold earlier, when the shares are sold and they have increased in value since you acquired them, **or**
- 'special benefits' are received by virtue of your ownership of shares, **or**
- shares convert to another class of shares because of conversion rights which come from your office or employment.

If this applies to you ask the Orderline for *Help Sheet IR217: Shares acquired: post-acquisition charges.*

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.